

# **Social Capital for the Sustainable Growth: Thailand's Perspectives\***

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Distinguished Guests, Ladies and Gentlemen

It is my privilege and pleasure to be invited to this distinguished Symposium to share with you some of Thailand's experiences in the roles of social capital in economic development. This, I believe, should be appropriate given the theme "Social Capital towards Sustainable Development in East Asia" of the symposium, and would hopefully make a useful contribution to this distinguished forum.

The term "social capital", is fairly new, and still varying in definitions and attributes, depending on the environment and fundamental of each society. Based on the World Bank's definition<sup>1</sup>, for example, social capital comprises a combination of norms, relationships, institutions and networks influencing the quality of social interactions that lead to collective actions. When narrowly viewed, it is a horizontal association between the intricate networks affecting community productivity and the social well-being in general.

OECD, on the other hand, sees social capital as a social network based on mutual trust and confidence. As a basis for operating norms or standards, social and human capital thus plays a critical role, contributing significantly to national development.

In the context of Thailand's development, although the social dimension has always been there, its entry into conscious national planning came somewhat later than the deliberate economic development efforts. Symbolically, for example, the Office of the National Economic and Social Development Board (NESDB) was initially named the National Economic Board (NEB), established in February 1950 to advise the Royal Thai Government on general economic matters. Only later, following the World Bank's recommendation, that the NEB was restructured and enhanced as a central planning agency for overall national development. In 1959, the NEB was then renamed, the National Economic Development Board or the NEDB, giving rise to the First National Economic Development Plan formally in 1961.

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<sup>1</sup> From <http://web.worldbank.org>, What is Social Capital?

The importance of the social dimension was not recognized in the next 20 years until the 1970s, when social development became more formally integrated into the planning process. In 1972, the NEDB was thus renamed as the National Economic and Social Development Board with subsequently expanded scope of responsibility and power, and at present NESDB reports directly to the Prime Minister's Office.

Thus, we can see that the social dimension of development came only gradually and rather slowly. During this time, the pragmatic NESDB has, however, been quite flexible and constantly adapting its plans to the changing social, political and economic environment within its capacity. During the last 40 years, for example, it has drastically changed its planning process from a top down approach of the early 1960's to address concerns of the elite groups of society in the 1980's and then further downward to a more participatory approach involving grass roots in the 1990's. The development targets have also been expanded from the initial infrastructure master plan and macroeconomic management, to encompass social and environmental aspects, as well as the local communities' issues until these days.

So far, there have been ten national economic and social development plans. The focuses of the first seven plans ranged from economic and infrastructure development, to economic growth, economic stability, turning more towards social development only as a factor supporting economic development in recent years.

Thus, in the late 1980's, the issues of income inequality, social problems and natural resources and environmental deterioration came more into focus. Furthermore, partly as a rather late lesson learnt from the Asian Crisis in 1997 and also partly as a response to it, the philosophy of "Sufficiency Economy" for sustainable development bestowed by H.M. the King, was adopted in the ninth plan as the guiding principle for national development and management. The ninth plan's strategies aimed to construct a strong social foundation, by the enhancement of human potential and social protection, urban development, environment management, establishment of good governance along with continuous efforts on traditional economic restructuring.

Learning from international experiences, Thailand identified a set of critical factors as urgent development priorities in order to achieve sustainable social and national development. These included among other things, global positioning, value creation, and a proactive social policy, reflecting the theme of development towards social dimension gaining momentum in Thailand's development efforts. In particular, for Thailand to remain competitive, the government deemed it necessary to develop a proactive foreign policy and network based on the international principle of equal treatment, cultivating, promoting and expanding friendships and cooperation with the international communities, in political, security, economic and social as well as cultural dimensions.

Through these past decades, globalization has continued to create both opportunities and threats to development in Thailand as well as the rest of the world alike. As the world economy becomes more complex and closely inter-related, new world economic frames of engagement are also emerging, leading to new multilateral and bilateral agreements on international trade

and investment of various kinds, forms and fora. Regional trade groupings of both bilateral and multilateral nature are on the rise. The world economy is becoming significantly more and more, like a spaghetti bowl of international trading networks based on knowledge, and driven by technology compared with the past.

Like all other emerging markets, for Thailand to maintain its international competitiveness, there is an urgent need to undertake necessary structural reforms that go well beyond economic development. From the present value creation, knowledge management, global and regional FTAs, Thailand obviously needs a more proactive social policy aimed to create positive externality, easing the whole system efficiently and in a sustainable fashion.

Looking at Thailand's track record on social and particularly economic development, so far, one gains an impression that Thailand has achieved an outstanding progress over the last decades to its current status as a middle-income country in the World Bank's international ranking system. According to the Human Development Reports 2009 of the United Nations Development Programme (UNDP), per capita income in Purchasing Power Parity (PPP terms) was 8,135 US\$ in 2007. During this period, Thailand's Human Development Index (HDI)<sup>2</sup> rose to 0.783, from 0.615 in 1975. Meanwhile, the number of people living below the poverty line was reduced by almost two thirds between 1990 and 2002. The reach of education has also increased, with almost all children now attending primary school and enrolment in secondary schools, which has been free of charge since 2009, rising every year. Aided by high levels of attendance in schools, the adult literacy rate in 2007 reached 94.1%.

Despite this impressive progress, however, the fruits of development have not reached all regions of the country in equal measure. While the Bangkok Metropolitan Area in 2007 has less than 1.15% of its population living in poverty, the incidence of poverty was as high as 12.93% in the north, 13% in the north-east, and 5.88% in the south of the country. Poverty rates in Narathiwat and Pattani, two of the southern-most provinces, were 20.02% and 19.72%, respectively. Furthermore, drawn by Thailand's economic wealth and stability in comparison with some of its neighbours, many migrants arrived in search of employment and a living. These migrants do not always have full access to social services such as health care and those not registered are still vulnerable to exploitation.

The concept of social capital started to receive more significant attention in Thailand with the pain brought about by the Asian crisis in 1997. Many renowned thinkers and pragmatists in the country came to the conclusions that the causes of the crisis, among other things, arose from the failure of Thailand to capitalize on its strengths and social values, in particular its strong culture. Yet, the fact that Thailand survived the devastating effects of the crisis is also largely attributed to the existence of social capital, particularly in the compassion and loving kindness

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<sup>2</sup> HDI is calculated from a combination of GDP per capita, life expectancy at birth and educational achievement compiled internationally by the UNDP. The value ranged from 0.5 or lower in poor African countries to 0.75 or above in North America, Australia, Japan and Western Europe.

within the family and community circles that mobilized national efforts together in time of crisis. This social capital helped a significant number of laid-off workers get through this period of difficult time. Therefore, social capital, if and when properly utilized, can drive Thailand's development forward probably in a sustainable manner to the great benefit of the population at large.

At the onset of the 1997 crisis, several programs were also introduced to alleviate the social impacts of the crisis. Some of the programs were, nevertheless, short-term in nature and aimed to cushion income shortfalls for workers laid off or the newly graduated who could not secure a job during the economic downturn. At the same time, the government also set up a Social Investment Fund (SIF)<sup>3</sup> to provide partial financial supports to community groups that set out plans to strengthen their own communities, utilizing and enhancing social capital in the community at the same time. The long-term objective was to make these communities more capable of assisting their own members, independently when they are in needs.

Ladies and Gentlemen, let me go into a bit more details about the changes in Thailand's approach in economic and social development brought about by the 1997 crisis. Looking back over the past decades of development, the series of national development plans have evidently opened up opportunities for broad participation at almost all layers of society. While the plans established an extensive protection framework against risks, in the financial sector, the conventional fixed exchange rate provided a strong sense of stability (perhaps excessively) in a largely open economic system. The economy developed and productive process industrialized, assisted largely by the influx of capital inflows in the forms of FDI at first and later in short term loans. Financial markets became precociously sophisticated and liberal, the appetite for risks by both domestic and foreign investors in Thailand grew exponentially with an obviously disastrous result -- depicted by the crisis in 1997.

In the aftermath of the crisis, the strategy was turned around more sensibly towards self-reliant and systemic stability. Starting from the ninth National Social and Development Plan, prudential measures have been employed at the national levels and risk management encouraged right down to both private and public institutional and individual levels. This approach could probably be perceived as a point of departure from the national development approaches taken up to the eighth Plan between 1997- 2001, in which free markets assumed a

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<sup>3</sup> Thailand's social investment fund is financed by a US\$300 million project loan from the World Bank. The loan is divided into two parts : the Channel I funds, administered by Thai government departments in the same way as other foreign-funded projects and used to set up programs to generate employment; and the Channel II funds, totaling US\$150 million, that were to be further divided into the US\$30 million regional urban development fund to provide loans to municipal government, and the US\$120 million social investment fund proper to provide grants to community organizations across the country.

Source : Ammar Siamwalla and Srawooth Paitoonpong, "The Social Investment Fund in Thailand," in ed. by Pamela J. Noda, *Cross-Sectoral Partnerships in Enhancing Human Security*, (Tokyo: Japan Center for International Exchange, 2002), pp.157-187.

central role in the development process.

Apart from the change in the focus of the Plan, the formulation process of the ninth Plan was also changed. The formulation was cascaded down to the multi-stakeholders, allowing them to participate from the start of the planning process, and right down to the project levels. This was aimed to make the content and process of the development efforts more reflective of the communities' needs and preferences at the local, municipal, as well as the provincial levels as much as possible.

From the central bank's point of view, the Asian financial crisis has led us to a new paradigm for financial markets and forced us to rethink the whole business model, as well as risk management. In particular, there emerged a strong and vocal social preference for stronger governance and accountability in the financial institutions as well as the regulators themselves.

In this respect, the Bank of Thailand has embarked on the task of strengthening the financial sector ever since the Asian crisis. Supervision was changed from a compliance-based to a risk-based system. Banks' board of directors and management were required to actively and effectively manage their own risks, and international standards, including the new Basel II framework and accounting standard were introduced, just to mention a few examples.

The immediate objective of BOT was to ensure that the adoption of emerging high global standards was strictly aligned with the risk-based principle, while taking into account emerging markets' limitations, and that our adoption of the new reforms was adequate and yet practical in our context at the same time. As it turned out, learning from the painful experience of the crisis, both banks and non banks private sectors spontaneously became very cautious in terms of liquidity, debt-equity ratio, capital adequacy management, and etc., such that the enforcement of these new rules did not cause excessive strains nor unnecessary social tension or losses of any social capital as a consequence.

This conservatism played into Thailand's favour, protecting Thailand from the potential adverse effects of the subprime crisis in 2008.

Ladies and Gentlemen, as Thailand endeavors to strengthen its financial system and reform its economic structures on the road to further development, towards a more stable, efficient, equitable and resilient system, attention would need to span across economic growth to the spread of social benefits for the well-being of the majority of the people. A key social priority in particular is to protect the marginal groups from probable future economic downturns, which in turn demands a better understanding as to which groups of society have escaped the protection of existing social capital.

At the macro level, the Tenth National Development Plan, covering the period 2007–2011, continues to follow the vision and philosophy of the Ninth Plan. It focuses, in particular, on three areas of (a) economic capital, (b) social capital, and (c) natural resources and the environment.

In this respect, one critical fact needs to be pointed out. In 1996--in the midst of a bubble economy prior to the Asian crisis, almost half of the Thai labor force (47 percent) was in the agricultural sector, while the agriculture GDP was only around 11 percent. This structure

remains more or less the same today. The fact that approximately half of the labor force still engage in activities that generate only approximately one-tenth of the country's GDP explains why income distribution to the agricultural sector, which is the poorer segment of the economy, has not improved significantly. Furthermore, it also implies that, going forward, the distribution cannot improve unless either a large portion of labor migrates out of the agricultural sector or productivity of the agricultural sector improves drastically.

With the dramatic economic growth but unsupported by an effective distribution mechanism over the last four decades has thus inevitably led to increasing inequality, particularly in rural areas (even though poverty may have in fact declined). This, on the one hand, reflected the growing importance of market economy and the growing involvement of the state into the rural community on the other. This growing roles of the state in some instances also indirectly contributed to a lesser social capital even further. For example, in cooperatives where a significant proportion of rural activities took place, the extent that individuals once invested in the relationships among the group members became more opportunistic in response to market signals and took the opportunities opened up to them by the state. This opportunistic behaviors lead to redistribution of income and wealth among rural peers. Once this occurs, the subgroups that gained these advantages can take the opportunities to exploit it, leading to a further stratification of the rural society, undermining the momentum of economic and social development achieved so far.

The losses of "social capital" therefore drove the social wedges deeper and further resulting in a wider social stratification, robbing the poor of the benefits they deserve from the collective activities of their communities. In many cases, these communal relationships were further developed into a patron-client type relationship which although may help to ameliorate the pain of exclusion to a certain extent, may in the long run lead to an even higher degree of social separation and stratification even further.

The authorities in Thailand are aware of these problems and measures are being taken to address them. For example, when the rural poor first come to urban areas under urbanization pressure, they inevitably run into the "adjustments to city life" problem. Meanwhile, they are immediately cut off from the help traditionally obtainable from their neighbors back home in their time of needs, a natural component of their rural life style. This has worked in the past as a rural safety net representing a social capital accumulated over the years. This social safety net, however, no longer exists in a city life. To alleviate some of these problems, the government has launched various measures, for example, the Thirty Baht Medicare Scheme, in which a patient only needs to pay 30 baht or slightly less than \$1 for one doctor visit regardless of the illness. Other measures include free education up to high school, and costs of living assistance schemes introduced to alleviate the impact of high oil prices.

These measures appeared to have improved partially the stratification problems. The long run impacts remain to be seen. Further efforts are obviously needed here.

In closing, I hope that what I have outlined so far about some of Thailand's limited experiences in the area of social capital have somewhat contributed to the body of knowledge

of this issue from the perspective of practical development strategy. As a relatively late comer, Thailand has a lot more to learn from a forum like this, which I hope to be able to do so during my brief attendance here. I wish the conference the best and every success in its endeavor.

Thank you for your attention.